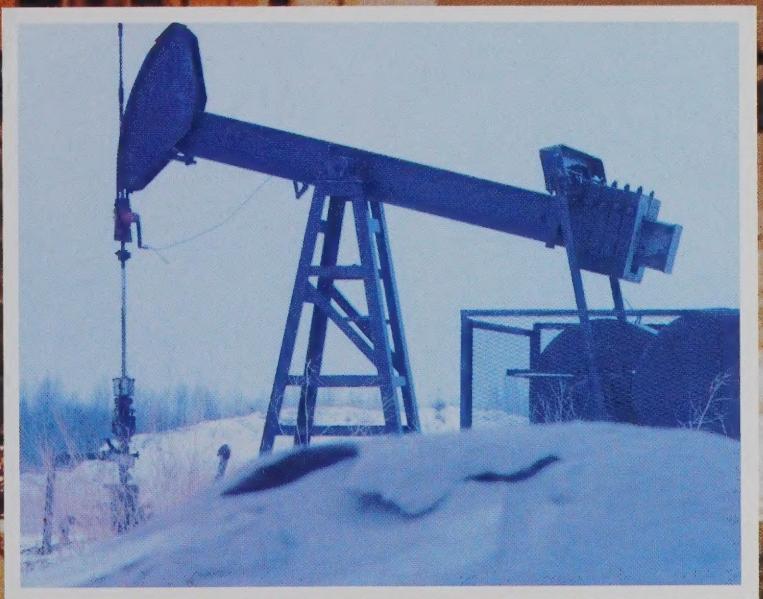


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UNIVERSITY OF ALBERTA  
FACULTY OF BUSINESS ADMINISTRATION  
AND COMMERCE  
FRANCIS G. WINSPEAR COLLECTION



CLAREPINE DEVELOPMENTS LTD.  
1979 ANNUAL REPORT

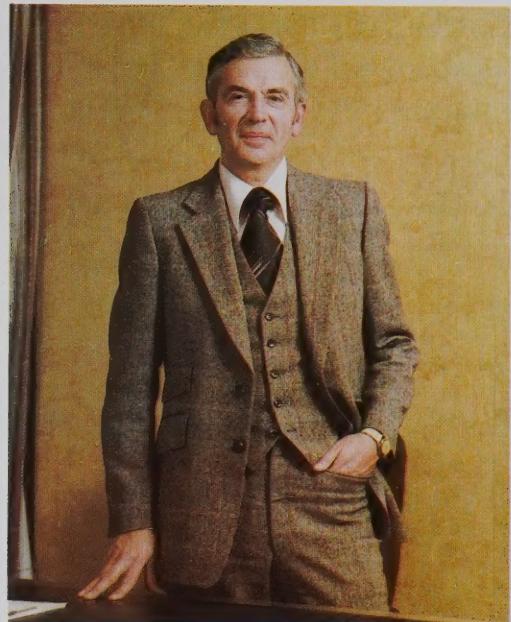


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## PRESIDENT'S REPORT TO THE SHAREHOLDERS

Gross revenue for 1979 was \$2,914,708 against \$2,145,119 for 1978, an increase of 35%. Cash flow from operations was \$620,266 (16.5¢ per share) compared to \$352,495 (9.4¢ per share) for 1978. The Company increased its investment in property, plant and equipment by approximately \$766,000 during 1979. Management believes that in these inflationary times, although interest rates are very high, our policy should be to purchase real assets and pay for them as rapidly as possible. While a conservative policy must be followed in regard to our debt equity ratio, we do not generally intend to operate with a surplus of working capital. We recognize the inherent risks in this method of operating as the company grows larger, but we believe the chance for a serious downturn in the Alberta economy in the near term is minimal.



The Company's silica sand operation is still its main source of revenue and growth. The strength of this subsidiary company, Sil Silica Ltd., is directly attributable to the strong team of hard working people that have come together in the last eight years. Their dedication to a quality product while increasing production is evident in each year end report. Plans are now underway for a doubling of plant capacity to meet the anticipated demand in the 1980's.

The Company invested \$157,108 for oil and gas properties under exploration and development. As reported to you in October, the Company participated in a six well drilling program in 1979. The property in Wyoming is now being considered for a waterflood and if determined to be economically viable, could proceed in 1980. Our company holds a 16 2/3% interest in over 5,000 acres in Saskatchewan and consideration is being given to a 1980 drilling program. Our oil and gas assets will be transferred to a wholly owned subsidiary, Clarepine Resources Ltd. This new company will continue to be active in the oil and gas industry.

You were recently advised that Clarepine had entered into an agreement with Kaps Transport. (Details can be found under Note 11 to the Financial Statements). Kaps Transport Ltd., has two operating divisions, Transportation Division, the moving of drilling rigs for the oil industry, and the Manufacturing Division, which custom fabricates pressure vessels, tanks, steam generators and other material for use in both the conventional and heavy crude oil industry. We are optimistic about the potential of the Manufacturing Division of Kaps and hopeful that the Transportation Division can also be returned to a profitable position. Currently, problems of inadequate working capital, excessive management overhead, weak financial and administrative controls and poor motivation of operating personnel must be overcome. The two divisions have combined annual revenues of \$15,000,000 and fixed assets and equipment values of approximately \$6,000,000.

Respectfully submitted on behalf of the Board of Directors.

A handwritten signature in black ink, appearing to read "R.A. McAlpine".

R. A. McAlpine  
PRESIDENT

UNIVERSITY OF ALBERTA  
FACULTY OF BUSINESS ADMINISTRATION  
AND COMMERCE  
FRANCIS G. WINSPEAR COLLECTION

RECEIVED AUG 22 1981

# **CLAREPINE DEVELOPMENTS LTD.**

## **Consolidated Financial Statements**

**November 30, 1979**

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### **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have examined the consolidated balance sheet of Clarepine Developments Ltd. as at November 30, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The figures for the year ended November 30, 1978, included for comparative purposes, are based on the financial statements of that year which were reported on by other chartered accountants.

*Peat, Marwick, Mitchell & Co.  
Chartered Accountants*

Edmonton, Canada  
January 23, 1980

# CONSOLIDATED BALANCE SHEET

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	<b>Assets</b>	<b>1979</b>	<b>1978</b>
Current assets:			
Cash	\$ 180,698	\$ 317,422	
Accounts receivable	354,703	272,282	
Inventories	125,675	86,634	
Agreement receivable, current portion (note 2)	27,033	27,033	
Prepaid expenses and deposits	<u>18,475</u>	<u>10,512</u>	
	706,584	713,883	
Agreement receivable (note 2)	<u>54,067</u>	<u>81,100</u>	
Property, plant and equipment (note 3)	<u>1,566,437</u>	<u>978,930</u>	
Oil and gas properties and equipment (note 4)	<u>465,520</u>	<u>344,699</u>	
	<u>\$2,792,608</u>	<u>\$2,118,612</u>	
	<b>Liabilities</b>		
Current liabilities:			
Accounts payable and accrued liabilities	\$ 323,839	\$ 264,065	
Income taxes payable	6,278	10,485	
Current portion of long-term debt (note 5)	229,711	129,664	
Current portion of deferred revenue (note 6)	<u>25,215</u>	<u>25,215</u>	
	<u>585,043</u>	<u>429,429</u>	
Long-term debt (note 5)	<u>618,812</u>	<u>495,158</u>	
Deferred revenue (note 6)	<u>50,432</u>	<u>75,647</u>	
Deferred income taxes	<u>169,000</u>	<u>30,000</u>	
Commitments and subsequent event (notes 10 and 11)			
	<b>Shareholders' Equity</b>		
Share capital (note 7)	668,853	667,552	
Retained earnings	<u>700,468</u>	<u>420,856</u>	
	<u>1,369,321</u>	<u>1,088,378</u>	
	<u><u>\$2,792,608</u></u>	<u><u>\$2,118,612</u></u>	

See accompanying notes to consolidated financial statements.

On behalf of the Board:

R.A. McAlpine Director

R.H. Nicholson Director

# CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

---

	<b>1979</b>	<b>1978</b>
Revenue	<u>\$2,914,708</u>	<u>\$2,145,119</u>
Expenses:		
Operating	1,686,315	1,196,912
Depreciation and depletion	182,800	224,769
General and administrative	447,440	418,099
Interest	<u>86,728</u>	<u>65,293</u>
	<u>2,403,283</u>	<u>1,905,073</u>
Income before income taxes and extraordinary item	<u>511,425</u>	<u>240,046</u>
Income taxes (note 8):		
Current	28,000	77,500
Deferred (recovery)	<u>139,000</u>	<u>(21,500)</u>
	<u>167,000</u>	<u>56,000</u>
Income before extraordinary item	344,425	184,046
Extraordinary item:		
Realization of income tax benefit resulting from a carryforward of losses	10,000	43,500
Net income	<u>354,425</u>	<u>227,546</u>
Retained earnings, beginning of year	<u>420,856</u>	<u>193,310</u>
Dividends paid	<u>775,281</u>	<u>420,856</u>
Retained earnings, end of year	<u>\$ 700,468</u>	<u>\$ 420,856</u>
Earnings per share:		
Income before extraordinary item	<u>\$ .092</u>	<u>\$ .049</u>
Net income	<u>\$ .095</u>	<u>\$ .061</u>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

---

	<b>1979</b>	<b>1978</b>
Funds provided:		
From operations	\$ 620,266	\$ 352,495
Payment received on agreement receivable	27,033	27,033
Proceeds from long-term debt	375,000	443,330
Realization of income tax benefit resulting from a carryforward of losses	10,000	43,500
Decrease in subsidiary's investment in parent company's shares	1,331	1,290
Proceeds from sale of property, plant and equipment	<u>53,607</u>	<u>24,529</u>
	<u>1,087,237</u>	<u>892,177</u>
Funds used:		
Purchases of property, plant and equipment	766,883	352,131
Purchases of oil and gas properties and equipment	157,108	6,080
Reduction of long-term debt	251,346	201,907
Dividends paid	74,813	—
	<u>1,250,150</u>	<u>560,118</u>
Increase (decrease) in working capital	(162,913)	332,059
Working capital (deficiency), beginning of year	<u>284,454</u>	<u>(47,605)</u>
Working capital, end of year	<u>\$ 121,541</u>	<u>\$ 284,454</u>

See accompanying notes to consolidated financial statements.

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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## **1. SIGNIFICANT ACCOUNTING POLICIES:**

To facilitate the understanding of data included in the financial statements, the significant accounting principles and practices followed by the Company and its subsidiaries are set forth below:

### **(a) Basis of consolidation**

The consolidated financial statements include the accounts of the Company's 100% owned subsidiaries, Sil Silica Ltd. and Clarepine Resources Ltd. All material inter-company transactions have been eliminated.

### **(b) Inventories**

Inventories are valued at the lower of cost and net realizable value.

### **(c) Property, plant and equipment**

Additions and improvements are capitalized at cost, whereas expenditures for maintenance and repairs are charged to expense. Items of property, plant and equipment retired or otherwise disposed of are removed from the asset and accumulated depreciation accounts and any gains or losses are reflected in income.

Depreciation is calculated using the declining balance and straight-line methods to charge the cost of fixed assets, less estimated salvage value, to operations over their useful operating lives, which are currently estimated as follows:

Buildings	10 to 30 years
Plant equipment	10 to 20 years
Mobile equipment	2 to 10 years
Furniture and other equipment	5 to 10 years

### **(d) Oil and gas properties**

The Company follows the full cost method of accounting for its oil and gas properties, whereby all costs related to the acquisition, exploration and development of oil and gas reserves are capitalized. The costs are being depleted using the unit production method based on estimated reserves as determined by the Company. Depreciation of production equipment is calculated using the declining balance method at a rate of 10% to charge the cost of such equipment to operations over its estimated useful life.

### **(e) Income taxes**

Deferred income taxes arise from timing differences in recognizing income for accounting and tax purposes, principally depreciation and depletion.

## 2. AGREEMENT RECEIVABLE:

The receivable, arising in 1976 on the sale by a subsidiary of its net current assets and operations, is due in annual installments of \$27,033 with interest at 10%, secured by hypothecation of the shares of the acquirer.

## 3. PROPERTY, PLANT AND EQUIPMENT:

	Cost		Net Book Value	
	1979	1978	1979	1978
Land	\$ 481,661	\$ 340,181	\$ 481,661	\$ 340,181
Buildings	164,081	105,863	106,319	63,054
Plant equipment	825,099	786,701	303,721	317,403
Mobile equipment	922,520	451,392	648,558	235,390
Furniture and other equipment	54,133	44,374	26,178	22,902
	<u>\$2,447,494</u>	<u>\$1,728,511</u>	<u>\$1,566,437</u>	<u>\$ 978,930</u>

## 4. OIL AND GAS PROPERTIES AND EQUIPMENT:

	Cost		Net Book Value	
	1979	1978	1979	1978
Producing properties	\$ 332,900	\$ 262,247	\$ 229,015	\$ 191,539
Production equipment	169,904	168,269	143,378	147,080
	<u>502,804</u>	<u>430,516</u>	<u>372,393</u>	<u>338,619</u>
Properties under exploration and development	93,127	6,080	93,127	6,080
	<u>\$ 595,931</u>	<u>\$ 436,596</u>	<u>\$ 465,520</u>	<u>\$ 344,699</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 5. LONG-TERM DEBT:

	<u>1979</u>	<u>1978</u>
Bank loan, secured by a \$500,000 fixed and floating charge debenture, assignment of revenue from certain oil and gas properties and assignment of insurance proceeds on plant and equipment, due in monthly principal installments of \$1,890 with interest at Canadian bank prime plus 2%	\$ 186,797	\$ 208,982
Bank loan, secured by a \$250,000 fixed and floating charge debenture, due in monthly principal installments of \$2,085 with interest at Canadian bank prime plus 2%	214,555	239,575
Bank term loans, secured by chattel mortgages on certain equipment, due in monthly principal installments of \$14,159 with interest at Canadian bank prime plus 1½%	398,715	92,063
Debenture, secured by mortgages on land and buildings, fixed charges on other assets, due in monthly principal installments of \$1,300 with interest at 10½%	13,000	28,600
Debenture, secured by mortgages on land and buildings, fixed charges on certain equipment and a floating charge on other assets, due in monthly principal installments of \$600 with interest at 11%	28,800	36,000
Debentures, secured by a floating charge on all assets of Sil Silica Ltd., due in annual principal installments of \$125 with interest at 8%	500	7,500
Loan, secured by computer equipment, due in monthly installments of principal and interest (12%) of \$418.	6,156	10,541
Agreement for sale payable, secured by certain land, due in monthly installments of principal and interest of \$250	—	1,561
Installments of principal due within one year	<u>848,523</u>	<u>624,822</u>
	<u>229,711</u>	<u>129,664</u>
	<u><u>\$ 618,812</u></u>	<u><u>\$ 495,158</u></u>

Annual repayment of long-term debt due in each of the next five years is:

1980 — \$229,711	1983 — \$55,025
1981 — \$192,054	1984 — \$47,700
1982 — \$163,341	

### 6. DEFERRED REVENUE:

The gain on sale of operations of the subsidiary (note 2) is taken into income in equal amounts of \$25,215 per year.

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## 7. SHARE CAPITAL:

Authorized 10,000,000 common shares  
without par value

	1979	1978
	shares	\$
Issued	3,755,000	671,070
Less shares held by subsidiary	<u>9,010</u>	<u>2,217</u>
	<u><u>3,745,990</u></u>	<u><u>668,853</u></u>
	<u><u>3,740,665</u></u>	<u><u>667,522</u></u>

## 8. INCOME TAXES:

Income tax expense is less than the amount calculated by applying the statutory tax rate to income before income taxes due to the availability of resource allowance and earned depletion deductions.

## 9. REMUNERATION OF DIRECTORS:

The aggregate direct remuneration paid by the Company to the directors and officers was \$152,417 (\$135,186 in 1978).

## 10. COMMITMENTS:

The company is committed to annual expenditures of \$40,000 for leased premises.

## 11. SUBSEQUENT EVENT:

Clarepine Developments Ltd. has entered into an agreement dated December 21, 1979 with Kaps Transport Ltd. wherein Clarepine has been granted an option by Kaps to purchase 300,000 common shares for an aggregate purchase price of \$288,000 which option has been exercised but is subject to certain conditions including the satisfactory completion of a rights offering by Kaps which expires February 29, 1980. In addition, Clarepine will be granted further options to acquire up to 2,000,000 common shares of Kaps as follows:

- i) 1,000,000 shares at a purchase price of \$.96 per share, to be exercised on or before June 30, 1981; and
- ii) 1,000,000 shares at a purchase price of \$1.20 per share, to be exercised on or before June 30, 1983.

The agreement provides that Robert A. McAlpine, the President of Clarepine, must provide management services to Kaps. Clarepine has assigned 300,000 of the option shares to its President and Secretary-Treasurer at the same terms and conditions as provided under its agreement.

In the event that the rights offering was fully subscribed, all Clarepine options were exercised, and that all other options, warrants, and conversion privileges were exercised, Clarepine's interest and that of its President and Secretary-Treasurer would be approximately 24% of the issued share capital of Kaps.

## 12. COMPARATIVE FIGURES:

Certain of the 1978 figures have been reclassified to conform with the financial statement presentation adopted for 1979.

**CLAREPINE DEVELOPMENTS LTD.**  
**FIVE YEAR REVIEW**

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	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>
Working Capital	\$ 121,541	\$ 284,454	\$ (47,605)	\$ 110,926	\$ (7,160)
Property, Plant and Equipment	1,566,437	978,930	877,730	544,462	560,646
Oil and Gas Properties and Equipment	465,520	344,699	327,380	140,508	147,014
Other Assets	3,635	5,453	7,272	9,298	2,436
Long Term Debt	618,812	495,158	253,735	146,823	136,915
Deferred Taxes	169,000	30,000	51,500	16,300	14,870
Shareholders Equity	1,369,321	1,088,378	859,542	642,071	551,151
Revenue	2,914,995	2,145,119	1,807,151	1,518,284	1,482,512
Expenses	2,403,283	1,905,073	1,469,780	1,281,770	1,313,634
Income Taxes	167,000	56,000	132,700	85,497	55,214
Extraordinary Items	10,000	43,500	8,763	(58,941)	14,255
Net Income	354,425	227,546	213,434	92,076	127,919
Dividends	74,813	—	—	—	—
Earnings per share					
Before extraordinary items	9.2¢	4.9¢	5.5¢	4.0¢	3.0¢
Net Income	9.5¢	6.1¢	5.7¢	2.5¢	3.4¢
Cash Flow per share					
From operations	16.5¢	9.4¢	10.7¢	8.0¢	5.8¢
Shareholders equity per share	36.5¢	29.0¢	22.9¢	17.1¢	14.7¢

# CORPORATE INFORMATION

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## DIRECTORS

J. H. Binnie, P.Eng.  
Petroleum Consultant  
Calgary, Alberta

D. M. Chisholm, C.A.  
Partner-Chisholm, Gibeau, & McKenzie  
Edmonton, Alberta

R. A. McAlpine, P.Eng.  
President-Clarepine Developments Ltd.  
Edmonton, Alberta

R. H. Nicholson  
Businessman  
Vancouver, B.C.

## OFFICERS AND SENIOR MANAGEMENT

R. A. McAlpine  
President and Chief  
Executive Officer

J. H. Binnie  
Vice-President

J. R. Sheard  
Vice-President Finance and  
Secretary-Treasurer

P. J. Levasseur  
Vice-President Operations  
Sil Silica Ltd.

R. D. Persson  
Vice-President Administration  
Sil Silica Ltd.

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## EXECUTIVE OFFICE

9305 - 50th Street  
Edmonton, Alberta T6B 2L5  
(403) 465-9851

## ANNUAL MEETING

2:00 P.M. on Friday, April 25, 1980  
at the Executive Office of the  
Company.

## SIL SILICA LTD. OFFICES

Silica Plant  
Bruderheim, Alberta  
(403) 429-6138

Edmonton Warehouse  
4990 - 93rd Avenue  
(403) 465-0277

Calgary Warehouse  
#5 — 6025 - 12th Street, S.E.  
(403) 253-2924

## TRANSFER AGENT

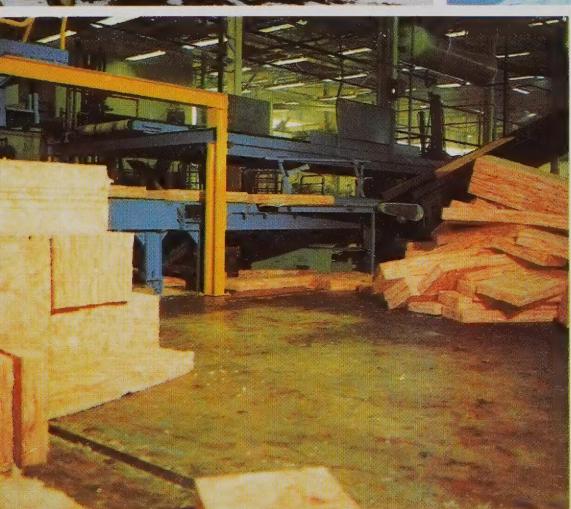
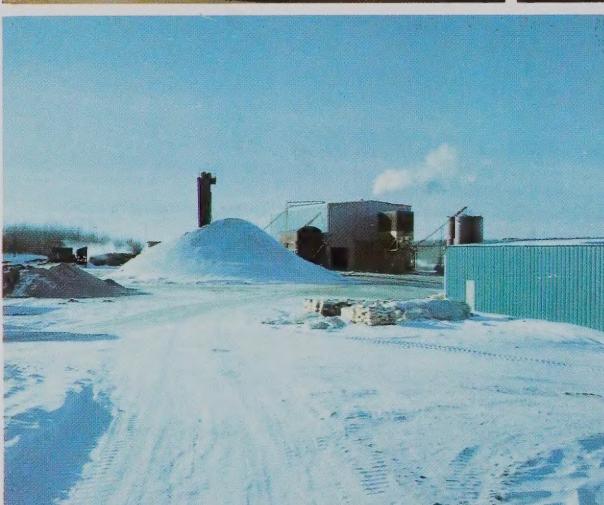
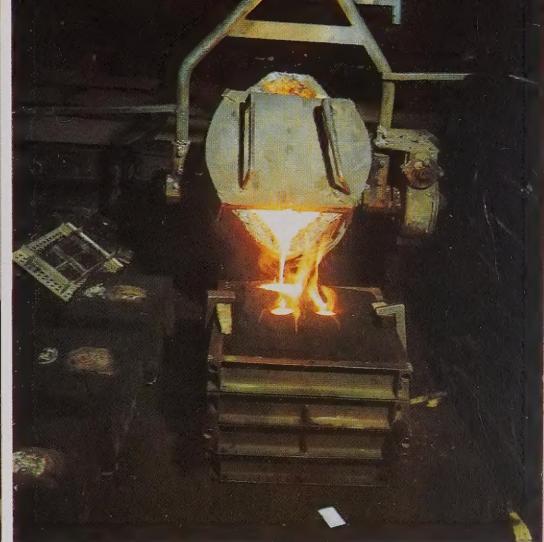
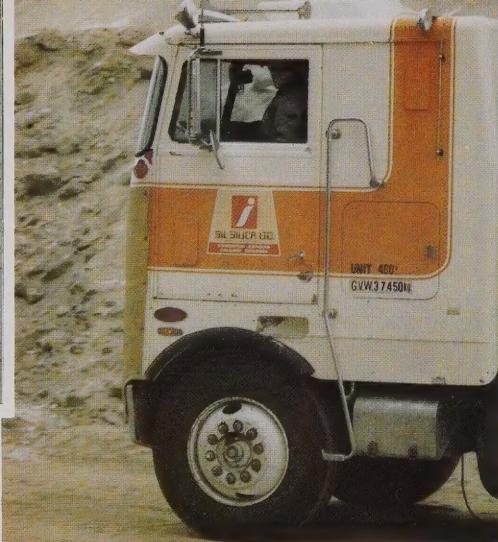
Canada Trust Company  
Calgary, Alberta

## STOCK LISTED

Alberta Stock Exchange

## AUDITORS

Peat, Marwick, Mitchell & Co.  
Edmonton, Alberta



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